

48-1040  
TOWNSHIP OF PENTLAND  
Luce County, Michigan

*deficit*

RECEIVED  
GENERAL FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION

JUN - 2 2004  
Year Ended March 31, 2004

## AUDITING PROCEDURES REPORT

Issue under P.A. 2 of 1968, as amended. Filing is mandatory.

<b>Local Government Type</b> <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		<b>Local Government Name</b> Township of Pentland	<b>County</b> Luce
<b>Audit Date</b> March 31, 2004	<b>Opinion Date</b> May 17, 2004	<b>Date Accountant Report Submitted to State:</b> May 17, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

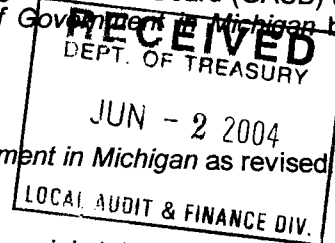
We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☒ yes ☐ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during this year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).



### We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

<b>Certified Public Accountant (Firm Name)</b> Campbell, Kusterer & Co., P.C.			
<b>Street Address</b> 512 N. Lincoln, Suite 100, P.O. Box 686		<b>City</b> Bay City	<b>State</b> MI
<b>Accountant Signature</b> Campbell, Kusterer & Co., P.C.		<b>Zip</b> 48707	

TOWNSHIP OF PENTLAND  
Luce County, Michigan

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# **CAMPBELL, KUSTERER & CO., P.C.**

CERTIFIED PUBLIC ACCOUNTANTS

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## **INDEPENDENT AUDITOR'S REPORT**

May 17, 2004

To the Township Board  
Township of Pentland  
Luce County, Michigan

We have audited the accompanying general purpose financial statements of the Township of Pentland, Luce County, Michigan, as of March 31, 2004, and for the year then ended, as listed in the table of contents. These general purpose financial statements are the responsibility of the Township of Pentland's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Township has not maintained a record of its general fixed assets, and accordingly, a statement of general fixed assets, required by generally accepted accounting principles, is not included in the general purpose financial statements.

In our opinion, except that the omission of the financial statement described above results in an incomplete presentation, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Township of Pentland, Luce County, Michigan, as of March 31, 2004, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States.

In accordance with Government Auditing Standards, we have also issued our report dated May 17, 2004, on our consideration of the Township of Pentland's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

To the Township Board  
Township of Pentland  
Luce County, Michigan  
May 17, 2004  
Page 2

The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the general purpose financial statements of the Township of Pentland, Luce County, Michigan. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.

*Campbell, Kusterer & Co., P.C.*  
CAMPBELL, KUSTERER & CO., P.C.  
Certified Public Accountants

TOWNSHIP OF PENTLAND  
Luce County, Michigan

COMBINED BALANCE SHEET – ALL FUND TYPES  
March 31, 2004

EXHIBIT A

	<u>Governmental Fund Types</u>		<u>Proprietary Fund Type</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Enterprise</u>
<u>Assets</u>			
Cash in bank	107 902 68	2 528 25	45 903 41
Accounts receivable	3 525 28	-	944 61
Taxes receivable	3 617 36	-	-
Due from other funds	335 012 26	-	-
Restricted cash in bank	-	-	47 925 00
Utility systems	-	-	3 857 882 00
Accumulated depreciation	-	-	(810 840 20)
Total Assets	<u>450 057 58</u>	<u>2 528 25</u>	<u>3 141 814 82</u>
<u>Liabilities and Fund Equity</u>			
Liabilities:			
Due to other funds	-	-	324 810 00
Due to other units	455 00	-	-
Accrued interest payable	-	-	679 00
Bonds payable	-	-	802 000 00
Total liabilities	<u>455 00</u>	<u>-</u>	<u>1 127 489 00</u>
Fund equity:			
Contributed capital	-	-	2 054 879 49
Retained earnings:	-	-	47 925 00
Reserved	-	-	(88 478 67)
Unreserved	-	-	-
Fund balances:	-	-	-
Unreserved:	-	-	-
Undesignated	449 602 58	2 528 25	-
Total fund equity	<u>449 602 58</u>	<u>2 528 25</u>	<u>2 014 325 82</u>
Total Liabilities and Fund Equity	<u>450 057 58</u>	<u>2 528 25</u>	<u>3 141 814 82</u>

The accompanying notes are an integral part of these financial statements.

<u>Fiduciary Fund Type</u>	<u>Total (Memorandum Only)</u>
<u>Agency</u>	

211 409 62	367 743 96
-	4 469 89
-	3 617 36
-	335 012 26
-	47 925 00
-	3 857 882 00
-	(810 840 20)

<u>211 409 62</u>	<u>3 805 810 27</u>
-------------------	---------------------

10 202 26	335 012 26
201 207 36	201 662 36
-	679 00
-	802 000 00
<u>211 409 62</u>	<u>1 339 353 62</u>

-	2 054 879 49
---	--------------

-	47 925 00
-	(88 478 67)

-	452 130 83
-	2 466 456 65

<u>211 409 62</u>	<u>3 805 810 27</u>
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TOWNSHIP OF PENTLAND  
Luce County, Michigan

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES – ALL GOVERNMENTAL FUND TYPES

Year Ended March 31, 2004

EXHIBIT B  
Page 1

	<u>Governmental Fund Types</u>		<u>Total</u>
	<u>General</u>	<u>Special Revenue</u>	<u>(Memorandum Only)</u>
Revenues:			
Property taxes	29 023 38	-	29 023 38
Other taxes – swamp tax	26 334 03	-	26 334 03
State revenue sharing	167 405 79	2 527 80	169 933 59
Charges for services – PTAF	10 157 04	-	10 157 04
Interest	3 574 29	-	3 574 29
Rents	1 545 00	-	1 545 00
Miscellaneous	160 68	-	160 68
Total revenues	<u>238 200 21</u>	<u>2 527 80</u>	<u>240 728 01</u>
Expenditures:			
Legislative:			
Township Board	1 873 60	-	1 873 60
General government:			
Supervisor	10 245 60	-	10 245 60
Elections	27 21	-	27 21
Assessor	15 596 42	-	15 596 42
Clerk	10 763 02	-	10 763 02
Board of Review	667 63	-	667 63
Treasurer	10 066 98	-	10 066 98
Building and grounds	31 534 86	-	31 534 86
Unallocated	53 510 75	-	53 510 75
Public safety:			
Law enforcement	2 000 00	2 539 00	4 539 00
Fire protection	67 720 05	-	67 720 05
Public works:			
Highways and streets	94 634 77	-	94 634 77
Street lighting	3 328 58	-	3 328 58
Sanitation	5 660 72	-	5 660 72
Other:			
Insurance	16 544 00	-	16 544 00
Capital outlay	<u>505 92</u>	<u>-</u>	<u>505 92</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF PENTLAND  
Luce County, Michigan

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES – ALL GOVERNMENTAL FUND TYPES

Year Ended March 31, 2004

EXHIBIT B  
Page 2

	<u>Governmental Fund Types</u>		<u>Total</u>
	<u>General</u>	<u>Special Revenue</u>	<u>(Memorandum Only)</u>
Total expenditures	<u>324 680 11</u>	<u>2 539 00</u>	<u>327 219 11</u>
Excess (deficiency) of revenues over expenditures	(86 479 90)	(11 20)	(86 491 10)
Fund balances, April 1	<u>536 082 48</u>	<u>2 539 45</u>	<u>538 621 93</u>
Fund Balances, March 31	<u><u>449 602 58</u></u>	<u><u>2 528 25</u></u>	<u><u>452 130 83</u></u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF PENTLAND  
Luce County, Michigan

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES – BUDGET AND ACTUAL –  
GENERAL AND SPECIAL REVENUE FUNDS

Year Ended March 31, 2004

EXHIBIT C  
Page 1

	General Fund		
	Budget	Actual	Over (Under) Budget
Revenues:			
Property taxes	40 800 00	29 023 38	(11 776 62)
Other taxes – swamp tax	26 236 00	26 334 03	98 03
State revenue sharing	167 406 00	167 405 79	(21)
Charges for services – PTAF	-	10 157 04	10 157 04
Interest	3 798 00	3 574 29	(223 71)
Rents	1 545 00	1 545 00	-
Miscellaneous	-	160 68	160 68
Total revenues	<u>239 785 00</u>	<u>238 200 21</u>	<u>(1 584 79)</u>
Expenditures:			
Legislative:			
Township Board	1 875 00	1 873 60	(1 40)
General government:			
Supervisor	10 246 00	10 245 60	(40)
Elections	50 00	27 21	(22 79)
Assessor	15 597 00	15 596 42	(58)
Clerk	10 764 00	10 763 02	(98)
Board of Review	675 00	667 63	(7 37)
Treasurer	10 067 00	10 066 98	(02)
Building and grounds	31 535 00	31 534 86	(14)
Unallocated	53 658 00	53 510 75	(147 25)
Public safety:			
Law enforcement	2 000 00	2 000 00	-
Fire protection	67 721 00	67 720 05	(95)
Public works:			
Highways and streets	94 635 00	94 634 77	(23)
Street lighting	3 330 00	3 328 58	(1 42)
Sanitation	5 661 00	5 660 72	(28)
Other:			
Insurance	16 544 00	16 544 00	-
Capital outlay	<u>506 00</u>	<u>505 92</u>	<u>(08)</u>

The accompanying notes are an integral part of these financial statements.

<u>Special Revenue Funds</u>		
<u>Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
-	-	-
-	-	-
2 400 00	2 527 80	127 80
-	-	-
-	-	-
-	-	-
-	-	-
<u>2 400 00</u>	<u>2 527 80</u>	<u>127 80</u>
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
2 539 00	2 539 00	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
<u>-</u>	<u>-</u>	<u>-</u>

TOWNSHIP OF PENTLAND  
Luce County, Michigan

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES – BUDGET AND ACTUAL –  
GENERAL AND SPECIAL REVENUE FUNDS  
Year Ended March 31, 2004

EXHIBIT C  
Page 2

	<u>General Fund</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
Total expenditures	<u>324 864 00</u>	<u>324 680 11</u>	<u>(183 89)</u>
Excess (deficiency) of revenues over expenditures	(85 079 00)	(86 479 90)	(1 400 90)
Fund balances, April 1	<u>553 000 00</u>	<u>536 082 48</u>	<u>(16 917 52)</u>
Fund Balances, March 31	<u>467 921 00</u>	<u>449 602 58</u>	<u>(18 318 42)</u>

The accompanying notes are an integral part of these financial statements.

<u>Special Revenue Funds</u>		
<u>Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
<u>2 539 00</u>	<u>2 539 00</u>	<u>-</u>
(139 00)	(11 20)	127 80
<u>2 539 00</u>	<u>2 539 45</u>	<u>45</u>
<u>2 400 00</u>	<u>2 528 25</u>	<u>128 25</u>

TOWNSHIP OF PENTLAND  
Luce County, Michigan

COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES  
IN RETAINED EARNINGS - ALL PROPRIETARY FUND TYPES

EXHIBIT D

Year Ended March 31, 2004

	<u>Proprietary Fund Types</u>
	<u>Enterprise</u>
Operating revenues:	
Charges for services	
Miscellaneous	203 722 57
Total operating revenues	<u>11 967 20</u> <u>215 689 77</u>
Operating expenses:	
Wages	
Benefits	42 952 80
Supplies	3 425 47
Utilities	4 271 34
Repairs and maintenance	12 700 49
Insurance	37 135 26
Treatment costs	620 00
Miscellaneous	25 782 22
Total operating expenses before depreciation	<u>107 196 03</u> <u>234 083 61</u>
Operating income (loss) before depreciation	
Less: depreciation	(18 393 84)
	<u>(77 157 65)</u>
Operating income (loss)	<u>(95 551 49)</u>
Nonoperating income and (expense):	
Interest income	
Amortization of contributed capital	1 034 41
Interest expense	42 308 64
Net nonoperating income and (expense)	<u>(37 152 50)</u> <u>6 190 55</u>
Net income (loss)	(89 360 94)
Retained earnings, April 1	<u>48 807 27</u>
Retained Earnings (Deficit), March 31	<u><u>(40 553 67)</u></u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF PENTLAND  
Luce County, Michigan

COMBINED STATEMENT OF CASH FLOWS – ALL PROPRIETARY FUND TYPES EXHIBIT E  
Year Ended March 31, 2004

	<u>Proprietary Fund Types</u>
	<u>Enterprise</u>
Cash flows from operating activities:	
Cash received from customers	204 569 23
Cash payments to suppliers for goods and services	(191 130 81)
Cash payments to employees for services	(42 952 80)
Other operating receipts	11 967 20
Net cash provided (used) for operating activities	<u>(17 547 18)</u>
Cash flows from non-capital and related financing activities:	
Increase in amounts due to other funds	83 000 00
Net cash provided (used) for non-capital and related financing activities	<u>83 000 00</u>
Cash flows from capital and related financing activities:	
Principal paid on revenue bond maturities	(18 000 00)
Interest paid on revenue bonds and equipment contracts	(37 152 50)
Net cash provided (used) for capital and related financing activities	<u>(55 152 50)</u>
Cash flows from investing activities:	
Interest income	1 034 41
Net cash provided (used) for investing activities	<u>1 034 41</u>
Net increase (decrease) in cash and cash equivalents	11 334 73
Cash and cash equivalents, April 1	<u>44 978 20</u>
Cash and Cash Equivalents, March 31	<u><u>93 828 41</u></u>
Reconciliation of operating income to net cash provided (used) for operating activities:	
Operating income	(95 551 49)
Depreciation	77 157 65
Increase (decrease) in assets and liabilities	846 66
Net Cash Provided (Used) for Operating Activities	<u><u>(17 547 18)</u></u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF PENTLAND  
Luce County, Michigan

NOTES TO FINANCIAL STATEMENTS

March 31, 2004

Note 1 – Summary of Significant Accounting Policies

The accounting policies of the Township of Pentland, Luce County, Michigan, conform to generally accepted accounting principles as applicable to governmental units.

Reporting Entity

In accordance with the provisions of the Governmental Accounting Standards Board's Statement No. 14 "The Financial Reporting Entity," the general purpose financial statements of the Township contain all the Township funds and account groups that are controlled by or dependent on the Township's executive or legislative branches.

The reporting entity is the Township of Pentland. The Township is governed by an elected Township Board. As required by generally accepted accounting principles, these financial statements present the Township as the primary government.

Basis of Presentation

The financial activities of the local unit are recorded in separate funds, categorized and described as follows:

Governmental Funds

General Fund

This fund is used to account for all financial transactions not accounted for in another fund, including the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants, and other intergovernmental revenues.

Special Revenue Fund

This fund is used to account for specific governmental revenues requiring separate accounting because of legal or regulatory provisions or administrative action.

Proprietary Funds

Enterprise Funds

Enterprise Funds report operations that provide services which are financed primarily by user charges, or activities where periodic measurement of net income is appropriate for capital maintenance, public policy, management control or other purposes.

TOWNSHIP OF PENTLAND  
Luce County, Michigan

NOTES TO FINANCIAL STATEMENTS

March 31, 2004

Note 1 – Summary of Significant Accounting Policies (continued)

Fiduciary Fund

The Current Tax Collection Fund is used to account for assets held as an agent for others.

Measurement Focus/Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present revenues and other financing sources and, expenditures and other financial uses in net current assets.

The modified accrual basis of accounting is followed by the governmental fund types. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual which is both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures, other than principal and interest on long-term debt, are recorded when the related fund liability is incurred, if measurable. Principal and interest on general long-term debt is recognized when due.

Revenues from local sources consist primarily of property taxes. Property taxes and revenues received from the State are recognized when susceptible to accrual. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned since they are measurable and available.

Proprietary fund type is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of this fund are included on the balance sheet. Fund equity is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present revenues and expenses in net total assets. The accrual basis of accounting is utilized by the proprietary fund type. Under this basis of accounting revenues are recognized when earned and expenses are recognized when the related liability is incurred.

Property Taxes

Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned.

TOWNSHIP OF PENTLAND  
Luce County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2004

Note 1 – Summary of Significant Accounting Policies (continued)

Property Taxes (continued)

Properties are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the county tax rolls. The Township 2003 tax roll millage rate was .9643 mills and the taxable value was \$29,198,948.00.

Fixed Assets and Depreciation

Fixed assets in the Enterprise Funds are depreciated using the straight line method over the estimated useful lives of the assets. Additions, improvements and major replacements are capitalized at cost. Maintenance, repairs and minor replacements are charged to expense as incurred.

Purchases of fixed assets for all other funds are recorded as expenditures in their respective funds at the time of purchase. The Township has not established the General Fixed Assets Group of Accounts which is required by generally accepted accounting principles.

Investments

Investments are stated at market.

Receivables

Receivables have been recognized for all significant amounts due to the Township. Allowances for uncollectable accounts have not been provided for in that collection is not considered doubtful and any uncollected amounts would be immaterial.

Inventories

All purchases of materials are reflected in expense when paid in all funds.

Compensated Absences (Vacation and Sick Leave)

Employees are not allowed to accumulate vacation and sick pay and therefore no accumulated amount is recorded in the financial statements.

TOWNSHIP OF PENTLAND  
Luce County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2004

Note 1 – Summary of Significant Accounting Policies (continued)

Budgets and Budgetary Accounting

The following procedures are followed in establishing the budgetary data reflected in these general purpose financial statements:

1. Prior to the beginning of the fiscal year, the proposed budget for each budgetary fund is submitted to the Township Board for consideration.
2. The proposed budgets include expenditures as well as the methods of financing them.
3. Public hearings are held to obtain taxpayer comments.
4. The budgets are adopted at the activity level by a majority vote of the Township Board.
5. The budgets are adopted on the modified accrual basis of accounting.
6. The originally adopted budgets can be amended during the year only by a majority vote of the Township Board.
7. The adopted budgets are used as a management control device during the year for all budgetary funds.
8. Budget appropriations lapse at the end of each fiscal year.
9. The budgeted amounts shown in these general purpose financial statements are the originally adopted budgets with all amendments that were approved by the Township Board during the fiscal year.

Encumbrances

Encumbrances involving the current recognition of purchase orders, contracts and other commitments for future expenditures are not recorded.

Postemployment Benefits

The Township provides no postemployment benefits to past employees.

TOWNSHIP OF PENTLAND  
Luce County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2004

Note 2 – Legal Compliance

Deficit Fund Balance

As of March 31, 2004, the Water Fund had a deficit in unreserved retained earnings in the amount of \$39,935.35 and the Sewer Fund had a deficit in unreserved retained earnings in the amount of \$48,543.32.

Public Act 275 of 1980 requires that the Township file a deficit elimination plan with the Michigan Department of Treasury within 90 days after the end of the fiscal year for each fund that ended that year in a deficit condition. The Township has not yet filed the required plans. The Township will address the deficits and will file the deficit elimination plans shortly.

Note 3 – Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the Township to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Township Board has designated three banks for the deposit of Township funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all investments authorized by state law as listed above.

The Township's deposits and investments are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the cash deposits are as follows:

Total Deposits

Carrying  
Amounts

415 668 96

TOWNSHIP OF PENTLAND  
Luce County, Michigan

NOTES TO FINANCIAL STATEMENTS

March 31, 2004

Note 3 – Deposits and Investments (continued)

Amounts in the bank balances are without considering deposits in transit or uncleared checks.

	<u>Bank Balances</u>
Insured (FDIC)	212 452 34
Uninsured and Uncollateralized	<u>205 238 03</u>
Total Deposits	<u><u>417 690 37</u></u>

The Township of Pentland did not have any investments as of March 31, 2004.

Note 4 – Proprietary Fund Fixed Assets

	<u>Enterprise</u>	
	<u>Water</u>	<u>Sewer</u>
Plant, property & equipment	2 894 258 00	963 624 00
Less accumulated depreciation	<u>(384 750 04)</u>	<u>(426 090 16)</u>
Net	<u><u>2 509 507 96</u></u>	<u><u>537 533 84</u></u>

Proprietary Fund fixed assets are depreciated using the straight-line method over the estimated useful lives which are fifty years.

Note 5 – Interfund Receivables and Payables

The amounts of interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	335 012 26	Sewer	234 000 00
		Water	90 810 00
		Current Tax Collection	<u>10 202 26</u>
Total	<u><u>335 012 26</u></u>	Total	<u><u>335 012 26</u></u>

TOWNSHIP OF PENTLAND  
Luce County, Michigan

NOTES TO FINANCIAL STATEMENTS

March 31, 2004

Note 6 – Sewer Revenue Bonds Payable

		<u>Date of Issue</u>	<u>Amount of Issue</u>	<u>Interest Rate</u>
Luce County D.P.W. Obligation Payable		8/1/76	201 250	5%
<u>Payable Fiscal Year Ended March 31</u>	<u>September 1 Interest</u>	<u>March 1 Principal</u>	<u>Interest</u>	<u>Total</u>
2005	2 325 00	7 250 00	2 325 00	11 900 00
2006	2 143 75	7 500 00	2 143 75	11 787 50
2007	1 956 25	7 750 00	1 956 25	11 662 50
2008	1 762 50	7 750 00	1 762 50	11 275 00
2009	1 568 75	7 750 00	1 568 75	10 887 50
2010	1 375 00	7 750 00	1 375 00	10 500 00
2011	1 181 25	7 750 00	1 181 25	10 112 50
2012	987 50	7 750 00	987 50	9 725 00
2013	793 75	7 750 00	793 75	9 337 50
2014	600 00	8 000 00	600 00	9 200 00
2015	400 00	8 000 00	400 00	8 800 00
2016	200 00	8 000 00	200 00	8 400 00
Totals	<u>15 293 75</u>	<u>93 000 00</u>	<u>15 293 75</u>	<u>123 587 50</u>

Note 7 – Water Revenue Bonds Payable

<u>Due Date July 1</u>	<u>Series 1997A Principal</u>	<u>Series 1997B Principal</u>
2004	10 000 00	1 000 00
2005	10 000 00	1 000 00
2006	10 000 00	1 000 00
2007	10 000 00	1 000 00
2008	10 000 00	1 000 00
2009	10 000 00	1 000 00
2010	10 000 00	1 000 00
2011	10 000 00	1 000 00
2012	10 000 00	1 000 00
2013	10 000 00	1 000 00
2014	15 000 00	1 000 00
2015	15 000 00	1 000 00

TOWNSHIP OF PENTLAND  
Luce County, Michigan

NOTES TO FINANCIAL STATEMENTS

March 31, 2004

Note 7 – Water Revenue Bonds Payable (continued)

<u>Due Date July 1</u>	<u>Series 1997A Principal</u>	<u>Series 1997B Principal</u>
2016	15 000 00	1 000 00
2017	15 000 00	1 000 00
2018	15 000 00	1 000 00
2019	15 000 00	1 000 00
2020	15 000 00	1 000 00
2021	20 000 00	1 500 00
2022	20 000 00	1 500 00
2023	20 000 00	1 500 00
2024	20 000 00	1 500 00
2025	20 000 00	1 500 00
2026	25 000 00	1 500 00
2027	25 000 00	1 500 00
2028	25 000 00	1 500 00
2029	25 000 00	1 500 00
2030	30 000 00	1 500 00
2031	30 000 00	1 500 00
2032	30 000 00	1 500 00
2033	30 000 00	1 500 00
2034	35 000 00	1 500 00
2035	35 000 00	2 000 00
2036	35 000 00	2 000 00
2037	35 000 00	2 000 00
Totals	665 000 00	44 000 00

The Water Fund revenue bonds require the establishment of a bond reserve account and a capital reserve account. As of March 31, 2004, the reserve accounts are as follows:

<u>Account</u>	<u>Required Reserve</u>	<u>Actual Reserve</u>	<u>Difference</u>
Bond Reserve	26 975 00	23 150 00	3 825 00
Capital Reserve	102 700 00	24 775 00	77 925 00

The Township of Pentland maintains that expenditures for capital items accounts for the difference in the capital reserve.

TOWNSHIP OF PENTLAND  
Luce County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2004

Note 8 – Deferred Compensation Plan

The Township of Pentland offers its employees two deferred compensation plans created in accordance with the Internal Revenue Code, Section 457. The assets of the plans are held in trust for the exclusive benefit of the participants and their beneficiaries. The assets may not be diverted to any other use. The administrators, Prudential and Nationwide Retirement Systems are agents of the Township of Pentland for the purposes of providing direction to the investment of the funds held in the account. The deferred compensation plan balances and activities are not reflected in the Township of Pentland's financial statements.

Note 9 – Pension Plan

The Township does not have a pension plan.

Note 10 – Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (workers' compensation). The Township has purchased commercial insurance for property loss, torts, and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 11 – Segment Information for Enterprise Funds

The Township maintains two Enterprise Funds which provide sewer and water services. Segment information for the year ended March 31, 2004, is as follows:

	<u>Sewer Fund</u>	<u>Water Fund</u>
Operating revenues	90 622 14	125 067 63
Depreciation expense	19 272 49	57 885 16
Net income (loss)	(109 028 01)	19 667 07
Contributed capital	282 859 49	1 772 020 00

TOWNSHIP OF PENTLAND  
Luce County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2004

Note 11 – Segment Information for Enterprise Funds (continued)

	<u>Sewer Fund</u>	<u>Water Fund</u>
Operating income (loss)	(116 214 70)	20 663 21
Bonds payable	93 000 00	709 000 00
Net working capital	(217 467 67)	(79 423 31)
Total equity	234 316 17	1 780 009 65

Note 12 – Building Permits

The Township of Pentland does not issue building permits. Building permits are issued by the County of Luce.

Note 13 – Total Columns on Combined Statements--Overview

The total columns on the combined financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation, because interfund eliminations have not been made in the aggregation of this data.

TOWNSHIP OF PENTLAND  
Luce County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT  
Year Ended March 31, 2004

EXHIBIT F  
Page 1

Township Board:	
Wages	<u>1 873 60</u>
Supervisor:	
Salary	<u>10 245 60</u>
Elections:	
Supplies	<u>27 21</u>
Assessor:	
Wages	
Education and training	10 108 80
Manatron – tax roll	130 00
Postage and supplies	3 650 62
Travel	1 620 60
	<u>86 40</u>
Clerk:	<u>15 596 42</u>
Salary	
Supplies	8 317 40
Travel	2 370 62
	<u>75 00</u>
Board of Review:	<u>10 763 02</u>
Wages	
Miscellaneous	601 20
	<u>66 43</u>
Treasurer:	<u>667 63</u>
Salary – Treasurer	
Salary – Deputy	6 952 80
Supplies	2 075 40
	<u>1 038 78</u>
Building and grounds:	<u>10 066 98</u>
Wages	
Supplies	6 291 60
Utilities	16 113 69
Repairs and maintenance	1 265 23
Miscellaneous	7 344 25
	<u>520 09</u>
	<u>31 534 86</u>

TOWNSHIP OF PENTLAND  
Luce County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT  
Year Ended March 31, 2004

EXHIBIT F  
Page 2

Unallocated:	
Audit	
Legal fees	3 000 00
Administrative deputy	18 857 63
Payroll taxes	25 396 21
Dues	5 505 30
	<u>751 61</u>
	<u>53 510 75</u>
Law enforcement	
	<u>2 000 00</u>
Fire protection:	
Contracted services	
Hydrant rental	31 720 05
	<u>36 000 00</u>
Highways and streets:	
Maintenance	<u>67 720 05</u>
	<u>94 634 77</u>
Street lighting	
	<u>3 328 58</u>
Sanitation	
	<u>5 660 72</u>
Insurance	
	<u>16 544 00</u>
Capital outlay	
	<u>505 92</u>
Total Expenditures	<u><u>324 680 11</u></u>

TOWNSHIP OF PENTLAND  
Luce County, Michigan

COMPARATIVE COMBINING BALANCE SHEET – ALL ENTERPRISE FUNDS  
March 31, 2004 and 2003

EXHIBIT G  
Page 1

	<u>Sewer Fund</u>		<u>Water Fund</u>	
	<u>3/31/03</u>	<u>3/31/04</u>	<u>3/31/03</u>	<u>3/31/04</u>
<u>Assets</u>				
Current assets:				
Cash in bank	44 978 20	23 951 24	3 515 48	21 952 17
Accounts receivable	967 29	510 09	823 98	434 52
Total current assets	<u>45 945 49</u>	<u>24 461 33</u>	<u>4 339 46</u>	<u>22 386 69</u>
Restricted assets:				
Cash in bank	-	-	34 000 00	47 925 00
Total restricted assets	<u>-</u>	<u>-</u>	<u>34 000 00</u>	<u>47 925 00</u>
Fixed assets:				
Sewer system	963 624 00	963 624 00	-	-
Water system	-	-	2 894 258 00	2 894 258 00
Accumulated depreciation	(406 817 67)	(426 090 16)	(326 864 88)	(384 750 04)
Net fixed assets	<u>556 806 33</u>	<u>537 533 84</u>	<u>2 567 393 12</u>	<u>2 509 507 96</u>
Total Assets	<u>602 751 82</u>	<u>561 995 17</u>	<u>2 605 732 58</u>	<u>2 579 819 65</u>

Totals	
<u>3/31/03</u>	<u>3/31/04</u>

48 493 68	45 903 41
<u>1 791 27</u>	<u>944 61</u>
<u>50 284 95</u>	<u>46 848 02</u>

<u>34 000 00</u>	<u>47 925 00</u>
<u>34 000 00</u>	<u>47 925 00</u>

963 624 00	963 624 00
2 894 258 00	2 894 258 00
<u>(733 682 55)</u>	<u>(810 840 20)</u>
<u>3 124 199 45</u>	<u>3 047 041 80</u>
<u>3 208 484 40</u>	<u>3 141 814 82</u>

TOWNSHIP OF PENTLAND  
Luce County, Michigan

COMPARATIVE COMBINING BALANCE SHEET – ALL ENTERPRISE FUNDS  
March 31, 2004 and 2003

EXHIBIT G  
Page 2

	<u>Sewer Fund</u>		<u>Water Fund</u>	
	<u>3/31/03</u>	<u>3/31/04</u>	<u>3/31/03</u>	<u>3/31/04</u>
<u>Liabilities and Fund Equity</u>				
Current liabilities:				
Due to other funds	147 000 00	234 000 00	94 810 00	90 810 00
Accrued interest payable	679 00	679 00	-	-
Current portion of long-term debt	7 000 00	7 250 00	6 000 00	11 000 00
Total current liabilities	<u>154 679 00</u>	<u>241 929 00</u>	<u>100 810 00</u>	<u>101 810 00</u>
Long-term liabilities:				
Bonds payable	100 000 00	93 000 00	720 000 00	709 000 00
Less current portion	(7 000 00)	(7 250 00)	(6 000 00)	(11 000 00)
Total long-term liabilities	<u>93 000 00</u>	<u>85 750 00</u>	<u>714 000 00</u>	<u>698 000 00</u>
Fund equity:				
Contributed capital	294 588 13	282 859 49	1 802 600 00	1 772 020 00
Retained earnings:				
Reserved	-	-	34 000 00	47 925 00
Unreserved (deficit)	60 484 69	(48 543 32)	(45 677 42)	(39 935 35)
Total fund equity	<u>355 072 82</u>	<u>234 316 17</u>	<u>1 790 922 58</u>	<u>1 780 009 65</u>
Total Liabilities and Fund Equity	<u>602 751 82</u>	<u>561 995 17</u>	<u>2 605 732 58</u>	<u>2 579 819 65</u>

Totals	
<u>3/31/03</u>	<u>3/31/04</u>
241 810 00	324 810 00
679 00	679 00
<u>13 000 00</u>	<u>18 250 00</u>
<u>255 489 00</u>	<u>343 739 00</u>
820 000 00	802 000 00
(13 000 00)	(18 250 00)
<u>807 000 00</u>	<u>783 750 00</u>
2 097 188 13	2 054 879 49
34 000 00	47 925 00
14 807 27	(88 478 67)
<u>2 145 995 40</u>	<u>2 014 325 82</u>
<u>3 208 484 40</u>	<u>3 141 814 82</u>

TOWNSHIP OF PENTLAND  
Luce County, Michigan

COMPARATIVE COMBINED STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN RETAINED EARNINGS – ALL ENTERPRISE FUNDS    EXHIBIT H  
Year Ended March 31, 2004 and 2003

	Sewer Fund		Water Fund	
	Year Ended 3/31/03	Year Ended 3/31/04	Year Ended 3/31/03	Year Ended 3/31/04
Operating revenues:				
Charges for services	78 944 03	78 654 94	110 183 35	125 067 63
Miscellaneous	-	11 967 20	2 000 00	-
Total operating revenues	<u>78 944 03</u>	<u>90 622 14</u>	<u>112 183 35</u>	<u>125 067 63</u>
Operating expenses:				
Wages	19 866 60	20 586 60	21 577 80	22 366 20
Benefits	1 530 50	1 688 71	1 660 66	1 736 76
Supplies	3 324 27	3 538 00	196 48	733 34
Utilities	3 958 65	3 923 55	8 253 02	8 776 94
Repairs and maintenance	2 713 18	28 556 33	18 569 45	8 578 93
Insurance	-	200 00	220 00	420 00
Treatment costs	23 688 97	24 071 16	1 781 82	1 711 06
Miscellaneous	1 080 00	105 000 00	4 718 77	2 196 03
Total operating expenses before depreciation	<u>56 162 17</u>	<u>187 564 35</u>	<u>56 978 00</u>	<u>46 519 26</u>
Operating income (loss) before depreciation	22 781 86	(96 942 21)	55 205 35	78 548 37
Less: depreciation	<u>(19 272 49)</u>	<u>(19 272 49)</u>	<u>(57 885 16)</u>	<u>(57 885 16)</u>
Operating income (loss)	<u>3 509 37</u>	<u>(116 214 70)</u>	<u>(2 679 81)</u>	<u>20 663 21</u>
Nonoperating income and (expense):				
Interest income	817 68	458 05	432 00	576 36
Amortization of contributed capital	11 728 64	11 728 64	30 580 00	30 580 00
Interest expense	<u>(5 337 50)</u>	<u>(5 000 00)</u>	<u>(32 535 00)</u>	<u>(32 152 50)</u>
Net nonoperating income and (expense)	<u>7 208 82</u>	<u>7 186 69</u>	<u>(1 523 00)</u>	<u>(996 14)</u>
Net income (loss)	10 718 19	(109 028 01)	(4 202 81)	19 667 07
Retained earnings (deficit), April 1	<u>49 766 50</u>	<u>60 484 69</u>	<u>(7 474 61)</u>	<u>(11 677 42)</u>
Retained Earnings (Deficit), March 31	<u>60 484 69</u>	<u>(48 543 32)</u>	<u>(11 677 42)</u>	<u>7 989 65</u>

Totals	
Year Ended 3/31/03	Year Ended 3/31/04
189 127 38	203 722 57
<u>2 000 00</u>	<u>11 967 20</u>
<u>191 127 38</u>	<u>215 689 77</u>
41 444 40	42 952 80
3 191 16	3 425 47
3 520 75	4 271 34
12 211 67	12 700 49
21 282 63	37 135 26
220 00	620 00
25 470 79	25 782 22
<u>5 798 77</u>	<u>107 196 03</u>
<u>113 140 17</u>	<u>234 083 61</u>
77 987 21	(18 393 84)
<u>(77 157 65)</u>	<u>(77 157 65)</u>
<u>829 56</u>	<u>(95 551 49)</u>
1 249 68	1 034 41
42 308 64	42 308 64
<u>(37 872 50)</u>	<u>(37 152 50)</u>
<u>5 685 82</u>	<u>6 190 55</u>
6 515 38	(89 360 94)
<u>42 291 89</u>	<u>48 807 27</u>
<u>48 807 27</u>	<u>(40 553 67)</u>

TOWNSHIP OF PENTLAND  
Luce County, Michigan

COMPARATIVE COMBINING STATEMENT OF CASH  
FLows – ALL ENTERPRISE FUNDS  
Year Ended March 31, 2004 and 2003

EXHIBIT I  
Page 1

	<u>Sewer Fund</u>		<u>Water Fund</u>	
	<u>Year Ended 3/31/03</u>	<u>Year Ended 3/31/04</u>	<u>Year Ended 3/31/03</u>	<u>Year Ended 3/31/04</u>
Cash flows from operating activities:				
Cash received from customers	79 124 14	79 112 14	110 336 79	125 457 09
Cash payments to suppliers for goods and services	(39 007 91)	(166 977 75)	(35 400 20)	(24 153 06)
Cash payments to employees for services	(19 866 60)	(20 586 60)	(21 577 80)	(22 366 20)
Other operating receipts	-	11 967 20	2 000 00	-
Net cash provided (used) for operating activities	<u>20 249 63</u>	<u>(96 485 01)</u>	<u>55 358 79</u>	<u>78 937 83</u>
Cash flows from non-capital and related financing activities:				
Increase (decrease) in amounts due to other funds	-	87 000 00	-	(4 000 00)
Net cash provided (used) for noncapital and related financing activities	<u>-</u>	<u>87 000 00</u>	<u>-</u>	<u>(4 000 00)</u>
Cash flows from capital and related financing activities:				
Principal paid on revenue bond maturities	(6 750 00)	(7 000 00)	(6 000 00)	(11 000 00)
Interest paid on revenue bonds and equipment contracts	(5 337 50)	(5 000 00)	(32 535 00)	(32 152 50)
Net cash provided (used) for capital and related financing activities	<u>(12 087 50)</u>	<u>(12 000 00)</u>	<u>(38 535 00)</u>	<u>(43 152 50)</u>
Cash flows from investing activities:				
Interest income	817 68	458 05	432 00	576 36
Net cash provided (used) for investing activities	<u>817 68</u>	<u>458 05</u>	<u>432 00</u>	<u>576 36</u>
Net increase (decrease) in cash and cash activities	8 979 81	(21 026 96)	17 255 79	32 361 69

Totals	
Year Ended 3/31/03	Year Ended 3/31/04
189 460 93	204 569 23
(74 408 11)	(191 130 81)
(41 444 40)	(42 952 80)
<u>2 000 00</u>	<u>11 967 20</u>
<u>75 608 42</u>	<u>(17 547 18)</u>
<u>-</u>	<u>83 000 00</u>
<u>-</u>	<u>83 000 00</u>
(12 750 00)	(18 000 00)
<u>(37 872 50)</u>	<u>(37 152 50)</u>
<u>(50 622 50)</u>	<u>(55 152 50)</u>
<u>1 249 68</u>	<u>1 034 41</u>
<u>1 249 68</u>	<u>1 034 41</u>
26 235 60	11 334 73

TOWNSHIP OF PENTLAND  
Luce County, Michigan

COMPARATIVE COMBINING STATEMENT OF CASH  
FLows – ALL ENTERPRISE FUNDS  
Year Ended March 31, 2004 and 2003

EXHIBIT I  
Page 2

	<u>Sewer Fund</u>		<u>Water Fund</u>	
	<u>Year Ended</u> <u>3/31/03</u>	<u>Year Ended</u> <u>3/31/04</u>	<u>Year Ended</u> <u>3/31/03</u>	<u>Year Ended</u> <u>3/31/04</u>
Cash and cash equivalents, April 1	<u>35 998 39</u>	<u>44 978 20</u>	<u>20 259 69</u>	<u>37 515 48</u>
Cash and Cash Equivalents, March 31	<u>44 978 20</u>	<u>23 951 24</u>	<u>37 515 48</u>	<u>69 877 17</u>
Reconciliation of operating to net cash provided (used) for operating activities:				
Operating income (loss)	3 509 37	(116 214 70)	(2 679 81)	20 663 21
Depreciation	19 272 49	19 272 49	57 885 16	57 885 16
Increase (decrease) in assets and liabilities	<u>(2 532 23)</u>	<u>457 20</u>	<u>153 44</u>	<u>389 46</u>
Net Cash Provided (Used) for Operating Activities	<u>20 249 63</u>	<u>(96 485 01)</u>	<u>55 358 79</u>	<u>78 937 83</u>

Totals	
Year Ended 3/31/03	Year Ended 3/31/04
<u>56 258 08</u>	<u>82 493 68</u>
<u>82 493 68</u>	<u>93 828 41</u>
829 56 77 157 65	(95 551 49) 77 157 65
<u>(2 378 79)</u>	<u>846 66</u>
<u>75 608 42</u>	<u>(17 547 18)</u>

TOWNSHIP OF PENTLAND  
Luce County, Michigan

STATEMENT OF CHANGES IN ASSETS AND  
LIABILITIES - CURRENT TAX COLLECTION FUND  
Year Ended March 31, 2004

EXHIBIT J

	<u>Balance</u> <u>4/1/03</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>3/31/04</u>
<u>Assets</u>				
Cash in bank	<u>48 46</u>	<u>712 984 39</u>	<u>501 623 23</u>	<u>211 409 62</u>
<u>Liabilities</u>				
Due to other funds	7 06	30 711 55	20 516 35	10 202 26
Due to other units	<u>41 40</u>	<u>682 272 84</u>	<u>481 106 88</u>	<u>201 207 36</u>
Total Liabilities	<u>48 46</u>	<u>712 984 39</u>	<u>501 623 23</u>	<u>211 409 62</u>

TOWNSHIP OF PENTLAND  
Luce County, Michigan

CURRENT TAX COLLECTION FUND  
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS  
Year Ended March 31, 2004

EXHIBIT K

Cash in bank – beginning of year	<u>48 46</u>
Receipts:	
Property taxes	712 887 27
Interest	<u>97 12</u>
Total receipts	<u>712 984 39</u>
Total beginning balance and cash receipts	<u>713 032 85</u>
Disbursements:	
Township General Fund	20 516 35
Luce County	348 118 99
Eastern U.P. Intermediate School District	17 680 62
Tahquamenon Area Schools	<u>115 307 27</u>
Total disbursements	<u>501 623 23</u>
Cash in Bank – End of Year	<u>211 409 62</u>

# CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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KENNETH P. KUSTERER, CPA

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## REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

EXHIBIT L  
Page 1

May 17, 2004

To the Township Board  
Township of Pentland  
Luce County, Michigan

We have audited the financial statements of Township of Pentland, Luce County, Michigan, as of and for the year ended March 31, 2004, and have issued our report thereon dated May 17, 2004. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

### Compliance

As part of obtaining reasonable assurance about whether Township of Pentland's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Township of Pentland's internal control over financial reporting in order to determine our auditing procedures for the purposes of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our study and evaluation disclosed the following condition that we believe to be a material weakness for which management believes corrective action is not practicable in the circumstances. Within the present plan of organization of the Township there is

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
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an inadequate control over cash transactions caused by an inadequate segregation of duties which is due to the limited number of office personnel employed. Such study and evaluation disclosed no conditions that we believe to be material weaknesses for which corrective action by management is practicable in the circumstances.

This report is intended for the information of management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

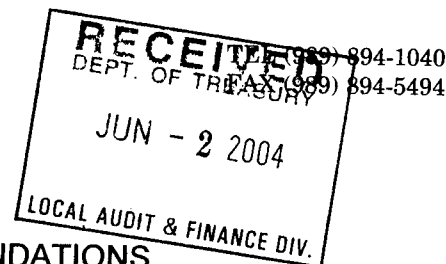
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Certified Public Accountants

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## AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS

May 17, 2004

To the Township Board  
Township of Pentland  
Luce County, Michigan

We have audited the financial statements of the Township of Pentland, for the year ended March 31, 2004. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

### AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES

We conducted our audit of the financial statements of the Township of Pentland in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

To the Township Board  
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For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

### **SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies are described in Note 1 to the financial statements.

### **OTHER COMMUNICATIONS**

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

To the Township Board  
Township of Pentland  
Luce County, Michigan

### **GASB 34 IMPLEMENTATION**

The Governmental Accounting Standards Board issued a new reporting model for governmental units which is to be implemented over the next few years. The implementation date of this pronouncement for the Township of Pentland will begin with the year ended March 31, 2004, and will need to be implemented fully by March 31, 2005. The daily operations and recording transactions should not change significantly, however, the Township will be required to maintain additional records for the year end adjustments to the final presentation format.

### **COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/ COMPLIANCE/ EFFICIENCY**

Our procedures disclosed the following conditions that we would like to bring to your attention:

#### **SEGREGATION OF DUTIES**

A separation of duties between persons who authorize transactions and persons who have control over the related assets does not always exist.

The least desirable accounting system is one in which an employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of duties substantially increases control over errors without duplication of effort.

We understand that due to the size of needed staff, a proper segregation of duties may be impractical and the "cost to benefit" relationship may not justify the addition of accounting staff to accomplish the desired segregation.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Township's financial statements and this communication of these matters does not affect our report on the Township's financial statements, dated March 31, 2004.

#### **SUMMARY**

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,

*Campbell, Kusterer & Co., P.C.*

CAMPBELL, KUSTERER & CO., P.C.  
Certified Public Accountants